

The Medicare Prescription Drug Program: Questions and Answers



**U.S. Senator Dianne Feinstein
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Dear Californian:

Ever since Medicare was established in 1965, there has been discussion about adding prescription drug coverage for Medicare recipients to the program — but for one reason or another this has not happened.

This November, after years of debate, Congress finally approved the first ever *voluntary* prescription drug program as part of Medicare for the 41 million Medicare recipients in the United States, including 4 million in California.

The prescription drug program is a giant step forward, and while the coverage isn't perfect, it will help Medicare recipients meet escalating drug costs.

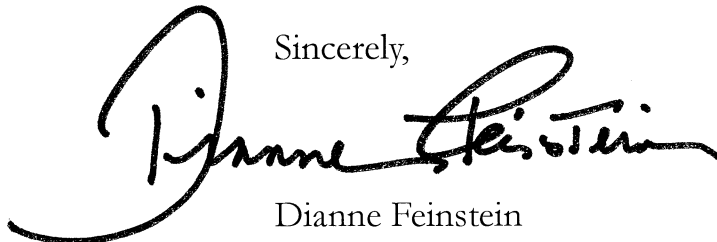
Put simply, this bill authorizes \$400 billion over the next 10 years to:

- **Provide comprehensive prescription drug coverage — including catastrophic coverage — for America's low-income seniors — defined as those who earn \$13,470 (or \$18,180 for couples) or less.**
- **Provide a significant benefit for all Medicare recipients who choose to enroll in the program – 75 percent of drug costs between \$251 and \$2,250; and**
- **Cover 95 percent of drug costs above \$3,600 in out-of-pocket spending (or \$5,100 in total drug spending) for those earning more than \$13,470 (or \$18,180 for couples), providing a safety net in cases of catastrophic illness.**

For most seniors, this coverage means that Medicare will pay a significant share of their drug costs. In the most serious cases, it will prevent a senior from having to choose between paying for groceries and buying prescription drugs.

This booklet describes in detail the new prescription drug coverage. If you have questions about the program or about how it might affect your current coverage, please don't hesitate to call my office at 202-224-3841.

Sincerely,

A handwritten signature in black ink, reading "Dianne Feinstein". The signature is fluid and cursive, with a large initial "D" and a stylized "F".

Dianne Feinstein
U.S. Senator

The Medicare Prescription Drug Improvement Program

The Medicare Prescription Drug Improvement Program is a \$400 billion program that will help Medicare recipients pay for their prescription drug costs. It is a voluntary program that provides a standard benefit to all Medicare recipients, while low-income recipients will have the vast majority of their drug costs paid by Medicare.

Who is eligible?

Everyone who is eligible for Medicare Part A or Part B qualifies for the voluntary prescription drug coverage.



Will everyone receive coverage?

All Medicare recipients who want coverage will be able to sign up for coverage, but it is not mandatory to join the program.

When does the program go into effect?

- In 2004 and 2005, all Medicare recipients will be eligible to purchase a drug discount card (for about \$30) that could reduce retail drug costs by an estimated 15-20 percent per prescription.

For recipients who earn less than \$12,123 (or \$16,362 for couples), \$600 will be credited to their drug discount card to defray drug costs further, and they will not have to pay the estimated \$30 to purchase a drug discount card. Additionally, these recipients will not pay more than 10 percent of their drug costs after they've spent more than \$600 on drugs.

- The actual Medicare drug coverage does not go into effect until 2006, when recipients will have the option of signing up for a stand-alone drug plan or join a private health plan that offers the drug coverage (see the following pages for a detailed description of the program).

Who will administer the prescription drug program?

Private insurance plans will administer the drug coverage. However, the government will provide standard drug coverage in any region that does not have at least one prescription drug plan and one integrated private health plan.

An estimated 350,000 low-income Californians — who are not eligible for Medicaid and today have no drug coverage — will now be covered by the new prescription drug benefit under this bill.

Low-Income Medicare Recipients

Too-many Americans now face the terrible choice of paying for rent or groceries and paying for their prescription drug costs and some have resorted to skipping doses in an attempt to manage prescription drug costs. Senator Feinstein believes that one of the most important features of the new program is the substantial coverage provided to low-income Medicare recipients.

Who is eligible for the low-income coverage?

- Seniors who earn less than \$12,123 (or \$16,362 for couples) a year will receive the entire low-income coverage, and those who earn up to \$13,470 (\$18,180 for couples) will also receive significant assistance.



What is the low-income coverage?

Seniors who earn less than \$8,980 (or \$12,120 for couples) and who are already receiving Medicaid:

- No premium, no deductible, and Medicare will pay all drug costs with the exception of a nominal co-pay** (\$1 co-pay for generics, \$3 co-pay for brand names)
- No co-pay if in a nursing home
- Catastrophic Coverage:** Medicare will pay all drug costs. There is no co-pay when total drug spending exceeds \$5,100

More than 1 million of California's low-income seniors will no longer have to face choosing between buying groceries and buying

Seniors who earn between \$8,980 (or \$12,120 for couples) and \$12,123 (or \$16,362 for couples) and have less than \$6,000 in assets (excluding home, a car, and jewelry):

- No premium, no deductible, and Medicare will pay all drug costs with the exception of a nominal co-pay** (\$2 co-pay for generics, \$5 co-pay for brand names)
- No co-pay if in a nursing home
- Catastrophic Coverage:** Medicare will pay all drug costs. There is no co-pay when total drug spending exceeds \$5,100

Seniors who earn between \$12,123 (or \$16,362 for couples) and \$13,470 (\$18,180 for couples) and have less than \$10,000 in assets (excluding home, a car, and jewelry):

- Sliding-scale premium
- \$50 deductible
- Medicare will pay **85 percent of drug costs** from \$51 to \$5,100 in total drug spending.
- Catastrophic Coverage:** Medicare will pay all drug costs when total drug spending exceeds \$5,100 with the exception of a nominal co-pay (\$2 co-pay for generics, \$5 co-pay for brand names)

The Standard Prescription Drug Coverage

All other Medicare recipients — seniors who earn more than \$13,470 (\$18,180 for couples) — will be eligible to receive the standard prescription drug coverage.

The most important feature of this element of the program is the catastrophic coverage, which means that Medicare pays for 95 percent of drug costs above \$5,100 in total drug spending. Medicare recipients will then only have to pay for 5 percent of these catastrophic drug costs.

What is the standard prescription drug coverage?

- Medicare recipients who choose to enroll in the program will be charged premiums averaging \$35 a month per person or \$420 a year.
- There is also a \$250 deductible. In other words, for those Medicare recipients who earn more than \$13,470 (\$18,180 for couples), the Medicare recipient pays the first \$250 of drug costs annually and then Medicare **will pay 75 percent of the remaining drug costs up to \$2,250.**
- **The “Donut Hole”:** After \$2,250 in total drug costs, Medicare will pay nothing more until drug spending reaches \$3,600 out of pocket (or \$5,100 in total drug spending). **This “donut hole” is often criticized. The problem is that without this gap in coverage, the total cost of the program explodes well beyond the \$400 billion authorized by this bill. Nevertheless, this program provides a significant benefit where there was previously nothing — particularly for low-income and catastrophic coverage.**



The catastrophic drug coverage in the bill will help ensure that a senior won't be forced into bankruptcy to pay for a chronic or severe illness.

Catastrophic Coverage: When drug spending exceeds \$3,600 out of pocket (or \$5,100 in total drug spending), Medicare will pay 95 percent of the cost of each prescription. Medicare recipients will then only have to pay for 5 percent of these catastrophic drug costs. The catastrophic coverage is very significant because the cost of a serious illness can be in the hundreds of thousands of dollars.

The catastrophic coverage in this bill will help ensure that a senior will be able to pay for the prescription drugs to treat his or her serious illness. In total, this bill provides significant prescription drug coverage to those who need it — whether they live in Los Angeles or Omaha.

California Hospitals

California's hospitals are in trouble, especially those that serve the poor or act as the training ground for the next generation of physicians. In fact, over the past 7 years, 62 hospitals have been forced to close.

This bill will help hospitals meet the needs of California communities by providing \$882 million in additional Medicare and Medicaid payments over the next 10 years.

This includes:

- \$121 million for County hospitals and other hospitals that provide services to the poor in California in FY2004, and \$408 million over the next 10 years.
- Approximately \$19.5 million over 10 years to California's teaching hospitals.
- As much as \$1.2 billion over 10 years for California hospitals for increased costs related to goods and services that are specific to hospitals, such as medical technology, blood and scalpels.
- \$25 billion for rural hospitals who serve low-income patients. In California this will mean approximately \$448 million over 10 years.
- Physicians will also receive increases of 1.5 percent per year in Medicare payments for 2004 and 2005, rather than face severe cuts planned under current law. California physicians will receive \$886 million because of the increased payments in this bill. Senator Feinstein is hopeful that this will stop the trend of physicians denying Medicare patients care because the Medicare payment rate is too low.



The Medicare bill will help California hospitals provide increased quality of care and keep physicians from leaving the State.

Taken together, this increased funding will translate into improved quality of care for California residents, and will help stem the tide of hospitals closures and physicians moving out of state.

Negotiating for Lower Prices, Generics, Retiree Coverage, and Drug Imports

Senator Feinstein will be working over the next few years to improve the prescription drug bill. One of the areas that she believes needs to be improved relates to the government's ability to negotiate with drug companies and pharmacies for lower prices for prescription drugs.

Under the current language of the bill, the Secretary of Health and Human Services, Tommy Thompson, is prohibited from using the purchasing power of the U.S. Government to negotiate with drug companies and pharmacies for lower drug prices.

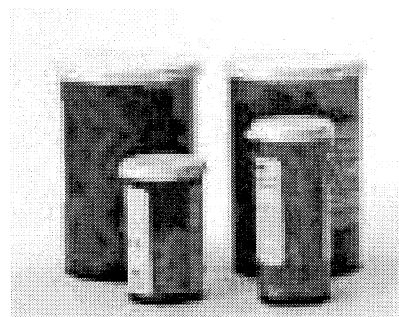
Senator Feinstein has discussed this with Secretary Thompson and strongly believes that he should have the ability to use the purchasing power of the U.S. Government to obtain the lowest possible price for prescription drugs.

Senator Feinstein will introduce legislation next year to give the Secretary of Health and Human Services that authority.

Generic Drugs: Senator Feinstein also believes that generic drugs should come to the market sooner, and this bill closes existing loopholes in the law by allowing new drug applicants only one 30 month patent extension per product for patents submitted prior to the time when drug can be produced generically. This will ensure that generic drugs are made available to Medicare recipients sooner than under current law.

Employer sponsored health benefits for retirees: The bill does not mandate that employers limit health care coverage for their retirees. Right now, before this law goes into effect, thousands of seniors are losing their health coverage each year. In order to prevent employers from dropping coverage for retirees, this bill provides \$88 billion to reimburse employers tax-free for 28 percent of the cost of retiree drug coverage.

Drug Re-Importation: Current regulations on re-importing prescription drugs from other countries would be continued. Such drugs are allowed only if the Department of Health and Human services certifies their safety. The bill does, however, authorize a study of safety issues. Before the Federal Government allows re-importation of drugs, there must be safeguards in place to prevent dangerous or bogus drugs from being shipped back to this country.



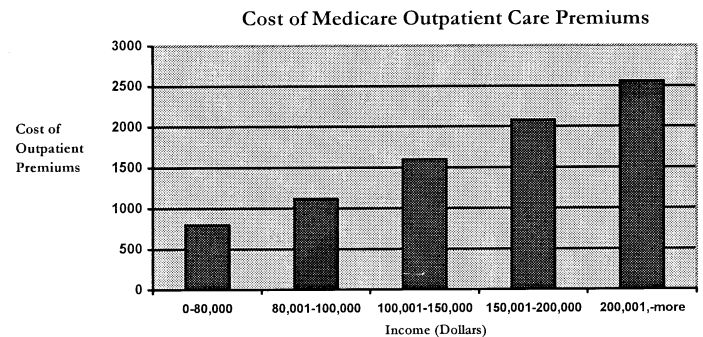
The generic drug provision will help bring cheaper equivalent generic drugs to the market sooner, reducing drug costs.

Income-Relating the \$3,196 Medicare Part B (Outpatient Care) Premiums

During the past 40 years, the average life expectancy of Americans has jumped from 70.2 years to 76.9 years. During the next 40 years, the number of Americans 65 and older will more than double, rising from 37 million today to 82 million in 2050.

The result of these demographic shifts, combined with rapidly rising health care costs, is a potentially devastating fiscal situation for Medicare. And unless the program is changed or modified, the Medicare trust fund will become insolvent in the year 2030.

In 2004, the total cost to the taxpayer of Medicare Part B premiums is \$3,196, seventy-five percent of which is subsidized by the government.



In order to make Medicare more financially secure, Senator Feinstein believes that those individuals who earn more than \$80,000 a year and couples who earn more than \$160,000 a year should pay a greater share of their \$3,196 Medicare Part B (outpatient care) premiums. Simply put, low-income families should not have to pay for someone like Ross Perot to have a checkup.

This provision will not impact the prescription drug benefit Medicare recipients will receive.

Income relating will begin in 2007 and will be fully phased-in in 2012:

- Individuals with annual incomes between \$80,001 and \$100,000 and couples with incomes between \$160,001 and \$200,000 will pay 35% of the total cost of the \$3,196 Medicare Part B premium (\$93.24 monthly, \$1118.88 annually in 2004).
- Individuals with annual incomes between \$100,001-\$150,000 couples with incomes between \$200,001 and \$300,000 will pay 50% of the total cost of the \$3,196 Medicare Part B premium (\$133.20 monthly, \$1598.40 annually in 2004).
- Individuals with annual incomes between \$150,001-\$200,000 couples with incomes between \$300,001 and \$600,000 will pay 65% of the total cost of the \$3,196 Medicare Part B premium (\$173.16 monthly, \$2077.92 annually in 2004).
- Individuals with annual incomes more than \$200,001 will pay 80% of the total cost of the \$3,196 Medicare Part B premium (\$213.12 monthly, \$2557.44 annually in 2004).

Other Frequently Asked Questions

Will this bill privatize Medicare?

No. The bill does not privatize Medicare.

Will Medicare have to compete with private insurers?

- The bill establishes six, three-year demonstration pilot programs in 2010 where Medicare will compete with private insurers – to determine if there are ways to make Medicare more financially competitive. **It would take an act of Congress to extend the pilot program or broaden it beyond those demonstration areas.**

Premiums for Medicare Part B (outpatient care) will not increase by more than 5% per year as a result of the demonstration program, and low-income Americans who earn less than \$13,470 (or \$18,180 a couple) will not see any change in their premiums or Medicare coverage as a result of this program.

The intent of these demonstration programs is to make Medicare more efficient, in light of the fact that the Medicare trust fund faces insolvency in 2030.

Does the bill include any other new benefits?

1. Medicare will cover an initial physical examination for new beneficiaries and screening for diabetes and cardio-vascular disease.
2. It will provide benefits for coordinated care for people with chronic illness and will increase payments for doctors administering mammograms to encourage their use.

Will the bill allow recipients to create Health Savings Accounts?

- Yes. People with high-deductible health insurance policies — \$1,000 for individuals, \$2,000 for couples — will be allowed to make deposits that are tax-free.
- Those who choose to utilize a health savings account will be able to deduct what they put into their account from their taxes, and when the money is withdrawn, they will pay no taxes on the investment and earnings, provided the money is used for valid health expenses. Otherwise, a 10 percent penalty will apply.